HURON COMMUNITY FINANCIAL SERVICES, INC.
East Tawas, Michigan

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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CONTENTS

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Huron Community Financial Services, Inc.
East Tawas, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Huron Community Financial Services, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Huron Community Financial Services, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Grand Rapids, Michigan
March 10, 2021

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
(000's omitted, except share and per share data)

	2020	2019
ASSETS		
Cash and due from banks	$ 26,527	$ 5,970
Investment securities – available for sale	67,972	61,294
Restricted securities	957	957
Loans – net of allowance for loan losses of $2,461 and $1,871 in 2020 and 2019, respectively	150,483	141,824
Foreclosed assets	180	480
Premises and equipment	2,960	2,918
Goodwill	405	405
Accrued interest receivable	715	597
Cash surrender value of life insurance	7,463	7,007
Other assets	872	846
Total assets	$ 258,534	$ 222,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 63,659	$ 43,327
Interest-bearing	155,249	143,775
Total deposits	218,908	187,102
Short-term borrowings	5,729	3,651
FHLB Advances	3,000	3,000
Accrued and other liabilities	342	290
Total liabilities	227,979	194,043
Stockholders' equity		
Common stock - $1 par value: authorized – 1,000,000 shares issued and outstanding – 583,620 and 574,636 shares	584	575
Additional paid-in capital	19,107	18,773
Retained earnings	9,442	8,435
Accumulated other comprehensive income (loss)	1,433	518
Unearned compensation	(11)	(46)
Total stockholders' equity	30,555	28,255
Total liabilities and stockholders' equity	$ 258,534	$ 222,298

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Years ended December 31, 2020 and 2019
(000's omitted, except share and per share data)

	2020	2019
Interest income		
Loans - including fees	$ 7,722	$ 7,640
Investment securities		
Taxable	375	363
Tax-exempt	511	473
Other	484	737
Total interest income	9,092	9,213
Interest expense		
Deposits	799	939
FHLB Advances	64	37
Short-term borrowings	18	45
Total interest expense	881	1,021
Net interest income	8,211	8,192
Provision for loan losses	563	620
Net interest income after provision for loan losses	7,648	7,572
Other operating income		
Service charges - deposits	381	423
Gain on sales of loans	918	171
Bank owned life insurance income	176	174
Loan servicing income	444	246
Other	242	140
Total other operating income	2,161	1,154
Other operating expenses		
Salaries and employee benefits	4,153	3,765
FDIC assessment	56	14
Occupancy expenses	576	517
Service fees	849	750
Depreciation expense	349	344
Other	1,386	1,196
Total other operating expenses	7,369	6,586
Income before income taxes	2,440	2,140
Income tax expense	356	334
Net income	2,084	1,806
Other comprehensive (loss) income – net of tax		
Unrealized (loss) gain on investment securities	915	915
Total comprehensive income	$ 2,999	$ 2,721
Earnings per share		
Basic income per common share	$ 3.57	$ 3.16
Diluted earnings per common share	3.55	3.14

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2020 and 2019
(000's omitted, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2019	$ 559	$ 17,937	$ 7,648	$ (95)	$ (397)	$ 25,652
Net income	-	-	1,806	-	-	1,806
Other comprehensive income	-	-	-	-	915	915
Issuance and sale of common stock (26,808 shares)	27	1,442	-	-	-	1,469
Purchase of common stock (11,369 shares)	(11)	(641)	-	-	-	(652)
Stock-based compensation, net	-	35	-	49	-	84
Dividends declared $1.80 per common share	-	-	(1,019)	-	-	(1,019)
Balance, December 31, 2019	575	18,773	8,435	(46)	518	28,255
Net income	-	-	2,084	-	-	2,084
Other comprehensive income	-	-	-	-	915	915
Issuance and sale of common stock (29,876 shares)	30	1,522	-	-	-	1,552
Purchase of common stock (20,892 shares)	(21)	(1,224)	-	-	-	(1,245)
Stock-based compensation, net	-	36	-	35	-	71
Dividends declared $1.86 per common share	-	-	(1,077)	-	-	(1,077)
Balance, December 31, 2020	$ 584	$ 19,107	$ 9,442	$ (11)	$ 1,433	$ 30,555

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2020 and 2019
(000's omitted, except share and per share data)

	2020	2019
Cash flows from operating activities		
Net income	$ 2,084	$ 1,806
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	349	344
Net gain on sale of mortgage loans	(918)	(171)
Proceeds from sale of mortgage loans	26,071	8,176
Origination of mortgages loans held for sale	(25,153)	(8,005)
Provision for loan losses	563	620
Amortization and accretion on securities	230	206
Increase in cash surrender value of life insurance	(176)	(174)
Stock-based compensation	71	84
Net change in:		
Accrued interest receivable	(118)	(15)
Other assets	(269)	33
Accrued expenses and other liabilities	52	24
Net cash from operating activities	2,786	2,928
Cash flows from investing activities		
Purchase of restricted stock	-	-
Activity in available-for-sale securities:		
Maturities, prepayments, calls and sales	21,471	20,767
Purchases	(27,221)	(25,337)
Purchase of bank owned life insurance	(280)	(255)
Proceeds from sale of foreclosed assets	300	-
Net increase in loans	(9,222)	(3,017)
Capital expenditures	(391)	(722)
Net cash from investing activities	(15,343)	(8,564)
Cash flows from financing activities		
Net (decrease) increase in deposits	31,806	6,658
Net (decrease) increase in short-term borrowings	2,078	(4,498)
Advances from the FHLB	-	3,000
Proceeds from the issuance and sale of common stock	1,552	1,469
Purchases of common stock	(1,245)	(652)
Cash dividends paid on common stock	(1,077)	(1,019)
Net cash from financing activities	33,114	4,958
Net change in cash and cash equivalents	20,557	(678)
Cash and cash equivalents at beginning of year	5,970	6,648
Cash and cash equivalents at end of year	$ 26,527	$ 5,970
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 935	$ 939
Income taxes	445	495
Supplemental noncash disclosures		
Loans transferred to other real estate	$ -	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation: The consolidated financial statements include the accounts of Huron Community Financial Services, Inc. (the "Corporation") and its wholly owned subsidiaries, Huron Community Bank (the "Bank") and Huron Community Insurance Agency, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations: The Bank operates in Iosco, Arenac, Alcona and Ogemaw counties in the state of Michigan. The Bank's revenue results primarily from providing real estate and commercial loans and, to a lesser extent, consumer loans. Its primary deposit products are demand deposits, savings, and term certificate accounts. The Corporation does not have any significant concentrations to any one industry or customer.

Use of Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During 2020, the coronavirus outbreak that surfaced in China at the end of 2019 spread around the world resulting in widespread business and social disruption. In March 2020, this outbreak was declared a National Emergency by the United States federal government. State and local governments are following the recommendations of the Centers for Disease Control and Prevention (CDC) trying to reduce the risk of social spread.

The longer-term impact of this pandemic to our results of operations and financial position cannot be reasonably estimated at this time. Numerous government actions have been implemented to assist small businesses and more are being discussed. The extent of the full economic impact of the coronavirus will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus's spread, the effectiveness of vaccines and vaccination programs and the actions required to contain it or treat its impact.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Federal funds sold are generally sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

Securities: Securities not classified as held to maturity or trading, deposits with other financial institutions with readily determinable fair values, are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted securities include Federal Reserve and Federal Home Loan Bank stock and are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the contractual terms of the securities for discounts and the period to call date, if applicable, for premiums. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. Loans held for sale at year-end 2020 and 2019 were not consequential.

Loans: The Corporation grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and mortgage loans throughout Michigan. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan origination fees, commitment fees, and certain direct origination costs are deferred and amortized as a net adjustment to the related loan's yield. The Bank generally amortizes these costs over the contractual life of such loans.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Corporation would not otherwise consider. To make this determination, the Corporation must determine whether (a) the borrower is experiencing financial difficulties and (b) the Corporation granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

The loan portfolio is allocated to the following segments for allowance analysis purposes:

> Commercial and Industrial - Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers business and industry as repayment is typically dependent on cash flows generated from the underlying business.
>
> Consumer - Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from an individual continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.
>
> Real Estate - The Bank has identified two real estate related segments, commercial and residential. These are loans to purchase or refinance business related real estate or single-family residences. The risks associated with this segment are dependent on the customer's ability to continue to generate cash flow that supports the payment obligation under the loan; however the underlying collateral is the business or residential real estate property which is also subject to changes in market valuation.

<u>Foreclosed Assets</u>: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating income and expenses.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Banking Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Goodwill: Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified.

Bank-Owned Life Insurance: The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Short-Term Borrowings: Short-term borrowings consist of repurchase agreements. Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Off-Balance-Sheet Instruments: In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when funded.

Servicing Rights: Servicing rights represent the fair value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance. Most loans originated for sale are sold servicing retained.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. No impairment of servicing rights has been recorded at year end 2020 or 2019. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income is based on a contractual percentage of the outstanding principal and is recorded as income when earned and was approximately $161 and $160 in 2020 and 2019, respectively. The amortization of mortgage servicing rights is netted against loan servicing income. Late fees and ancillary fees related to loan servicing are not material.

Stock Purchases and Sales: The Corporation regularly engages in the purchase and sale of Corporation common stock. Proceeds from the sale of common stock are recorded to additional paid-in capital.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income. Reclassification adjustments during 2020 and 2019 were $0 and $10 and are included in other operating income. The tax effect of reclassifications, included in income tax expense, were $0 and $2 for 2020 and 2019.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings per Common Share: Earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. The number of weighted average common shares outstanding was 583,965 and 572,229 for the years ended December 31, 2020 and 2019, respectively. The Corporation uses the treasury stock method to compute diluted earnings per share, which assumes that proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period. The dilutive effect of stock options increased average common shares outstanding by 3,860 and 3,601 shares at December 31, 2020 and 2019, respectively. There were 15,084 options not considered for dilution in 2020, because the exercise price plus unrecognized compensation cost was in excess of the average market price during the year.

Fair Values of Financial Statements: Fair values of financial instruments are estimated using the relevant market information and other assumptions, as more fully disclosed in the financial statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events: The consolidated financial statements and related disclosures include evaluation of events up through and including March 10, 2021 which is the date the consolidated financial statements were available to be issued.

Reclassification: Certain amounts appearing in the prior year's financial statements have been reclassified to conform to the current year's financial statements. These reclassifications had no effect on net income or total stockholders' equity.

(Continued)

(000's omitted, except share and per share data)

NOTE 2 – SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020				
State and municipal	$ 32,960	$ 1,263	$ (8)	$ 34,215
Time deposits with financial institutions	16,251	124	-	16,375
Mortgage-backed securities	10,401	272	(4)	10,669
Collateralized mortgage obligations	6,546	167	-	6,713
Total available-for-sale securities	$ 66,158	$ 1,826	$ (12)	$ 67,972
2019				
State and municipal	$ 20,901	$ 513	$ (1)	$ 21,413
Time deposits with financial institutions	26,408	60	-	26,468
Mortgage-backed securities	7,730	106	(10)	7,826
Collateralized mortgage obligations	5,599	9	(21)	5,587
Total available-for-sale securities	$ 60,638	$ 688	$ (32)	$ 61,294

At December 31, 2020 and 2019, securities with a carrying value of $22,260 and $19,031, respectively, were pledged to secure borrowings and public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 are as follows:

	December 31, 2020	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 13,217	$ 13,268
Due in 1 through 5 years	20,584	21,093
Due after 5 years through 10 years	8,903	9,302
Due after 10 years	6,507	6,927
	49,211	50,590
Mortgage-backed securities	10,401	10,669
Collateralized mortgage obligations	6,546	6,713
Total	$ 66,158	$ 67,972

Securities sold during 2020 and 2019, respectively, generated proceeds of $0 and $1,889 and resulted in gross gains of $0 and $10.

(Continued)

(000's omitted, except share and per share data)

NOTE 2 – SECURITIES (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2020						
State and municipal	$ 600	$ (8)	$ -	$ -	$ 600	$ (8)
Mortgage-backed securities	1,471	(4)	-	-	1,471	(4)
Collateralized mortgage obligations	-	-	-	-	-	-
Total available-for-sale securities	$ 2,071	$ (12)	$ -	$ -	$ 2,071	$ (12)
2019						
State and municipal	$ 74	$ (1)	$ -	$ -	$ 74	$ (1)
Mortgage-backed securities	1,662	(7)	150	(3)	1,812	(10)
Collateralized mortgage obligations	3,183	(9)	917	(12)	4,100	(21)
Total available-for-sale securities	$ 4,919	$ (17)	$ 1,067	$ (15)	$ 5,986	$ (32)

At December 31, 2020 and 2019, there were 7 and 17 securities in an unrealized loss position, respectively. Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Restricted securities, totaling $957 and $957 at December 31, 2020 and 2019, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

NOTE 3 – LOANS

A summary of the balances of loans follows:

	2020	2019
Mortgage loans on real estate – residential 1-4 family	$ 30,607	$ 32,408
Commercial loans	115,528	103,847
Consumer installment loans	6,809	7,440
	152,944	143,695
Less: allowances for loan losses	2,461	1,871
Net loans	$ 150,483	$ 141,824

The response to the pandemic and the economic disruption it had on our customers and their businesses had a significant impact on us and on our operations in 2020. The Corporation expects credit losses have been incurred but not yet identified. As a result, the provision for loan losses and the corresponding allowance for loan losses increased during 2020.

(Continued)

NOTE 3 – LOANS (Continued)

In 2020, in response to the disruption caused by the pandemic, the U.S. Treasury established a Paycheck Protection Loan Program (PPP) overseen by the Small Business Administration (SBA). Through this program, the SBA guaranteed loans were extended to qualifying customers which, if used in accordance with PPP program requirements, will be forgiven and repaid by the SBA. During 2020, we originated approximately $26,672 of PPP loans. At year-end 2020, approximately $20,188 remain outstanding with the balance having been forgiven and repaid. At December 31, 2020, these loans are included in "commercial loans" in the table above and in "commercial and industrial loans" in the tables that follow.

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $4,232 and $3,883 at December 31, 2020 and 2019, respectively.

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
2020					
Beginning balance	$ 107	$ 1,181	$ 469	$ 114	$ 1,871
Charge-offs	-	(100)	-	(7)	(107)
Recoveries	2	129	-	3	134
Provision	113	284	141	25	563
Ending allowance balance	$ 222	$ 1,494	$ 610	$ 135	$ 2,461
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 6	$ 211	$ -	$ -	$ 217
Collectively evaluated for impairment	216	1,283	610	135	2,244
Ending allowance balance	$ 222	$ 1,494	$ 610	$ 135	$ 2,461
Loans:					
Individually evaluated for impairment	$ 458	$ 2,230	$ 7	$ -	$ 2,695
Collectively evaluated for impairment	30,149	74,917	38,374	6,809	150,249
Total loans	$ 30,607	$ 77,147	$ 38,381	$ 6,809	$ 152,944

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
2019					
Beginning balance	$ 140	$ 1,173	$ 434	$ 71	$ 1,818
Charge-offs	(26)	(584)	-	(2)	(612)
Recoveries	-	45	-	-	45
Provision	(7)	547	35	45	620
Ending allowance balance	$ 107	$ 1,181	$ 469	$ 114	$ 1,871
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 6	$ -	$ 5	$ -	$ 11
Collectively evaluated for impairment	101	1,181	464	114	1,860
Ending allowance balance	$ 107	$ 1,181	$ 469	$ 114	$ 1,871
Loans:					
Individually evaluated for impairment	$ 490	$ 738	$ 16	$ -	$ 1,244
Collectively evaluated for impairment	31,918	81,221	21,872	7,440	142,451
Total loans	$ 32,408	$ 81,959	$ 21,888	$ 7,440	$ 143,695

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Risk Grading
As part of the management of the loan portfolio at the time of origination and through the continuing loan review process, the Corporation categorizes each loan into credit risk categories based on several factors including current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The credit risk rating structure used is shown below:

Monitor - A monitor asset is not considered "rated" or "classified" for regulatory purposes, but is considered an asset which bears watching due to some modest deterioration in financial performance or external threats, such as a lawsuit, environmental issue, or potential loss of a significant customer. Some of the following characteristics may exist: financial condition has taken a negative turn and may be temporarily strained; borrower may have experienced recent losses from operations; cash flow may be insufficient to service debt, based on most recent six-month period; financial covenant defaults are occurring with some regularity, and they would be deemed more than inconsequential; need for guarantor is critical, but guarantor's condition adds little substance to credit quality; loss of principal is not at question, unless current trends were to continue; however, there are aspects of this underwriting which may not now conform to bank lending policy; borrowing base deficiencies may exist and are becoming a concern.

Special Mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan, or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Some of the following characteristics may exist: loans are currently protected, but are potentially weak due to negative trends in balance sheet or income statement; cash flow may be insufficient to meet debt service, with the prospect that this condition may not be temporary; lack of effective control over the collateral or existence of documentation deficiencies; there is a potential risk of payment default; management's ability to cope with current financial conditions is questioned; collateral coverage has weakened; moderate operating losses may have occurred; financial information may be inadequate to depict condition of borrower adequately; consistent borrowing deficiencies.

Substandard - A substandard asset has well defined weaknesses whereby collection is possible, but jeopardized. However, jeopardized payment does not imply ultimate loss. Assets so classified are inadequately protected by current net worth and repayment capacity, and there is a high probability that collateral will have to be liquidated to repay the debt. If deficiencies are not corrected quickly, there is a real possibility of loss, and of the company's ability to operate as a going concern. Loan may be in default, borrower may be in bankruptcy, loan restructure at less than market terms, or has been partially charged off. Nonaccrual loans would be classified, at least, "substandard."

Doubtful - A doubtful asset has characteristics of "substandard," but information available suggests it is highly improbable that liquidation of collateral will retire the loan in its entirety. It may be impossible to calculate exactly what the loss may be, but the probability of some loss is high. Loans are to be placed on nonaccrual status when a significant percentage is classified "doubtful" and collateral liquidation is probable. (Not all nonaccrual loans necessarily have to be classified "doubtful" if collateral appears adequate to retire remaining outstandings)

Pass - Credits not covered by the above definitions are pass credits, which are not considered to be adversely rated.

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

For residential real estate and consumer loan segments, the Corporation monitors credit quality using a combination of the delinquency status of the loan and other known borrower circumstances and classifies loans as performing and nonperforming:

Performing - Loan pays as agreed and is current.

Nonperforming - Loans which are contractually past due 90 days or more as to interest or principal payments, on nonaccrual status, in process of foreclosure or other forms of liquidation and/or collection or loans where the terms of which have been renegotiated to provide a reduction or deferral on interest or principal.

	Pass	Monitor	Special Mention	Substandard	Performing	Non-Performing	Total
2020							
Real estate - commercial							
Commercial real estate and other	$ 61,284	$ 300	$ 870	$ 313	$ -	$ 44	$ 62,811
Hotels and motels	8,911	1,059	-	-	-	2,186	12,156
Golf courses	1,409	771	-	-	-	-	2,180
Commercial and industrial	38,139	114	121	-	-	7	38,381
Real estate – residential							
1-4 family residential	-	-	-	-	28,318	96	28,414
Construction and land loans	-	-	-	-	2,193	-	2,193
Consumer							
Home equity lines of credit	-	-	-	-	4,456	-	4,456
Other	-	-	-	-	2,353	-	2,353
Total	$ 109,743	$ 2,244	$ 991	$ 313	$ 37,320	$ 2,333	$ 152,944

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Pass	Monitor	Special Mention	Substandard	Performing	Non-Performing	Total
2019							
Real estate - commercial							
Commercial real estate and other	$ 66,438	$ 443	$ 818	$ 940	$ -	$ 54	$ 68,693
Hotels and motels	10,626	-	-	16	-	-	10,642
Golf courses	1,356	568	-	15	-	685	2,624
Commercial and industrial	21,299	428	104	41	-	16	21,888
Real estate – residential							
1-4 family residential	-	-	-	-	20,778	113	20,891
Construction and land loans	-	-	-	-	11,517	-	11,517
Consumer							
Home equity lines of credit	-	-	-	-	4,732	-	4,732
Other	-	-	-	-	2,708	-	2,708
Total	$ 99,719	$ 1,439	$ 922	$ 1,012	$ 39,735	$ 868	$ 143,695

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Age Analysis of Past Due Loans
The following tables detail the age analysis of past due loans at December 31, 2020 and 2019:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Past Due 90 Days and Accruing
2020							
Real estate - commercial							
Commercial real estate and other	$ -	$ -	$ -	$ -	$ 62,811	$ 62,811	$ -
Hotels and motels	-	-	-	-	12,156	12,156	-
Golf courses	-	-	-	-	2,180	2,180	-
Commercial and industrial	-	103	-	103	38,278	38,381	-
Real estate - residential							
1-4 family residential	112	-	55	167	28,247	28,414	55
Construction and land loans	-	12	-	12	2,181	2,193	-
Consumer							
Home equity lines of credit	-	-	-	-	4,456	4,456	-
Other	5	-	-	5	2,348	2,353	-
Total	$ 117	$ 115	$ 55	$ 287	$ 152,657	$ 152,944	$ 55

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Past Due 90 Days and Accruing
2019							
Real estate - commercial							
Commercial real estate and other	$ 818	$ -	$ -	$ 818	$ 67,875	$ 68,693	$ -
Hotels and motels	-	-	-	-	10,642	10,642	-
Golf courses	-	-	-	-	2,624	2,624	-
Commercial and industrial	218	-	-	218	21,670	21,888	-
Real estate - residential							
1-4 family residential	667	82	-	749	20,142	20,891	-
Construction and land loans	72	-	13	85	11,432	11,517	-
Consumer							
Home equity lines of credit	198	-	-	198	4,534	4,732	-
Other	-	-	5	5	2,703	2,708	5
Total	$ 1,973	$ 82	$ 18	$ 2,073	$ 141,622	$ 143,695	$ 5

Impaired Loans

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis for all loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following are schedules of impaired loans by class, as of December 31, 2020 and 2019, and the amount of allowance allocated. Unpaid principal balance reflects the contractual amount due:

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income for the Year
With no related allowance recorded:					
Real estate - commercial:					
Commercial real estate and other	$ 44	$ 50	$ -	$ 49	$ 3
Hotels and motels	120	129	-	126	8
Commercial and industrial	7	8	-	12	1
Real estate - residential					
1-4 family residential	435	525	-	450	23
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Total	$ 606	$ 712	$ -	$ 637	$ 35
With an allowance recorded:					
Real estate – commercial:					
Commercial real estate and other	$ -	$ -	$ -	$ -	$ -
Hotels and motels	2,066	2,115	211	2,096	113
Commercial and industrial	-	-	-	-	-
Real estate - residential:					
1-4 family residential	23	38	6	25	2
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Total	$ 2,089	$ 2,153	$ 217	$ 2,121	$ 115

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income for the Year
2019					
With no related allowance recorded:					
Real estate - commercial:					
Commercial real estate and other	$ 738	$ 1,280	$ -	$ 1,291	$ 73
Hotels and motels	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Real estate - residential					
1-4 family residential	463	463	-	455	23
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Total	$ 1,201	$ 1,743	$ -	$ 1,746	$ 96
With an allowance recorded:					
Commercial and industrial	$ 16	$ 17	$ 5	$ 20	$ 1
Real estate - residential:					
1-4 family residential	27	40	6	40	2
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Total	$ 43	$ 57	$ 11	$ 60	$ 3

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Nonaccrual Loans
Nonaccrual loan balances at December 31, 2020 and 2019 are as follows:

	2020	2019
Real estate commercial:		
Commercial real estate	$ 44	$ 54
Hotels and motels	2,186	-
Golf courses	-	685
Commercial and industrial	7	16
Real estate – residential:		
1-4 family residential	96	113
Construction and land loans	-	-
Consumer:		
Home equity lines of credit	-	-
Total	$ 2,333	$ 868

Nonaccrual
Commercial loans include business installment loans and real estate construction loans. Loans on which interest and/or principal is 90 days or more past due are placed on nonaccrual status and any previously accrued but uncollected interest is reversed against income (current year) or charged to the allowance for loan and lease losses (prior year). Such loans will remain on a cash basis for the recognition of income until such time as the loan has remained current for a period of not less than six (6) months and it is determined an adequate propensity for timely payment to occur in the future. Past due is measured from the date through which interest is due or on which principal payment is due irrespective of the date on which the billing may have been rendered. Unless otherwise specified in the note or loan agreement, demand notes shall, for purposes of measuring past due status, have an interest due date no less frequently than once each calendar quarter. Other loans on which there is serious doubt as to collectability are placed on nonaccrual because of past due status. Any loan whereby some or all of the balance has been charged off is placed on nonaccrual, unless it is part of an A B loan restructure. If the loan was on nonaccrual at the time of the restructure, it will remain in nonaccrual until such time as the above stated criteria is met. If the loan was not in nonaccrual at the time of the A B note restructuring and there is concrete evidence the payment structure will be met, the loan will not have to be placed in nonaccrual, provided the B portion has been charged off. Mortgages are placed on nonaccrual status when the account is three months (typically four payments) past due. All previously accrued but uncollected interest is reversed when the loan is placed on nonaccrual.

Troubled Debt Restructurings
A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

There was 1 commercial real estate loan modified as a TDR in 2020. It had a balance at modification (and afterwards) of approximately $2,115 and resulted in an provision for loan losses, but no charge offs, of approximately $200 during 2020. There were no loans modified as TDR's in 2019, and no TDRs defaulted within a year of their modification during 2020 or 2019.

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

In March 2020, banking regulatory agencies issued guidance which provided that certain short-term loan modifications granted to customers impacted by the Pandemic were not required to be considered to be TDRs, as defined previously, nor designated as impaired. Also, in March 2020, the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act which provided a statutory suspension of Generally Accepted Accounting Principles (GAAP) as it relates to the application of TDR accounting. This suspension was to remain available until the earlier of 60 days after the national emergency declared in March was terminated or December 31, 2020. This CARES Act relief has now been extended until January 1, 2022.

Pursuant to this relief, during 2020, the Bank modified the terms of customers' loans including providing for a deferral of payments and allowing interest only payments. These loan modifications were not considered to be TDRs or impaired following that guidance. During 2020, the Bank granted loan modifications to approximately 92 customers with principal balances, at modification, of approximately $33,836. At year-end, outstanding balances on these loans was $30,312. However, only $4,241 of these loans remained within their active modification periods with the balance having resumed payments to the Bank.

NOTE 4 –LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgages serviced for others were $65,993 and $63,580 at December 31, 2020 and 2019, respectively.

The balance of capitalized servicing rights, net of valuation allowance, included in other assets at December 31, 2020 and 2019 was $365 and $233, respectively. The fair value of the capitalized servicing rights was approximately $508 and $519 at year-end 2020 and 2019, respectively. The key economic assumptions used in determining the fair value of the mortgage servicing rights include an annual constant prepayment speed (CPR) of 15.7% and 14.1% for December 31, 2020 and 2019, respectively, and a discount rate of 7.8% and 8.6% for December 31, 2020 and 2019.

The following summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	2020	2019
Mortgage-servicing rights capitalized	$ 284	$ 85
Mortgage-servicing rights amortized and closed	152	100

(Continued)

(000's omitted, except share and per share data)

NOTE 5 – BANK PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2020	2019
Buildings and improvements	$ 4,872	$ 4,810
Furniture and fixtures	4,408	4,266
Vault and equipment	375	375
Automobiles	81	81
Land	667	667
	10,403	10,199
Accumulated depreciation	(7,443)	(7,281)
Net premises and equipment	$ 2,960	$ 2,918

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to $349 and $344, respectively.

NOTE 6 - DEPOSITS

The following is a summary of the distribution of interest-bearing deposits at December 31:

	2020	2019
NOW accounts	$ 84,061	$ 74,635
Savings	42,435	29,457
Money market demand	4,533	4,162
Time		
Under $250	20,655	31,082
$250 and over	3,565	4,439
Total interest-bearing deposits	$ 155,249	$ 143,775

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$ 15,381
2022	5,698
2023	1,605
2024	705
2025	831
	$ 24,220

(000's omitted, except share and per share data)

NOTE 7 – SHORT-TERM BORROWINGS

Short-term borrowings include the following:

Securities Sold Under Agreements to Repurchase - These are classified as secured borrowings and are used by the Bank for its sweep account product that mature daily and had a year-end balance of $5,729 and $3,651 in 2020 and 2019 respectively. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction and are secured by mortgage-backed securities with a fair value of approximately $6,325 and $5,153 and collateralized mortgage obligation securities with a fair value of approximately $1,297 and $1,669.

Discount Window Borrowings - The Bank has a discount window loan agreement with the Federal Reserve Bank that allows for advances. The advances are secured by investment securities with a fair value of approximately $15,834 and are generally due within 28 days from the date of the advance. The interest rate on the advances is based on the quoted Federal Reserve discount window rate (effective rate of 0.25% as of December 31, 2020). Outstanding advances at December 31, 2020 and 2019 were $0 and $0, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank (FHLB) are secured by the Corporation's qualifying real estate loans under a blanket collateral agreement. The advances are collateralized by approximately $17,378 and $18,838 of mortgage loans as of December 31, 2020 and 2019, respectively. Advances outstanding as of December 31, 2020 were $3,000, maturing June 6, 2022 with an annual interest rate of 2.11%.

FHLB advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank.

NOTE 9 – INCOME TAXES

The components of the net deferred tax asset, included in other assets, are as follows:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 419	$ 301
Accrued employee benefits	312	294
Nonaccrual loans	34	39
Other real estate	2	39
Other	74	79
	841	752
Deferred tax liabilities		
Prepaid assets	45	33
Servicing rights	77	49
Depreciation	179	104
Net unrealized gain on securities available for sale	381	138
Other	11	11
	693	335
Net deferred tax assets	$ 148	$ 417

(Continued)

(000's omitted, except share and per share data)

NOTE 9 – INCOME TAXES (Continued)

Allocation of income taxes (benefit) between current and deferred portions is as follows:

	2020	2019
Current	$ 330	$ 449
Deferred – continuing temporary differences	26	(115)
	$ 356	$ 334

The reasons for the differences between the income tax expense at the federal statutory income tax rate of 21% and the recorded income tax expense are summarized as follows:

	2020	2019
Income before income taxes	$ 2,440	$ 2,140
Income tax expense at federal statutory rate	$ 512	$ 449
Increases resulting from nondeductible expenses	6	3
Decreases resulting from nontaxable income	(143)	(138)
Other	(19)	20
	$ 356	$ 334

At December 31, 2020 and December 31, 2019, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. No amounts have been recorded for interest or penalties for the years ending December 31, 2020 or 2019. The Corporation is subject to U.S. federal income tax and is no longer subject to examination by the taxing authorities for years before 2017.

NOTE 10 – BENEFIT PLAN

The Corporation has a 401(k) plan whereby a certain percentage of employees' contributions can be matched with discretionary contributions by the Corporation. Contributions to the plan for the years ended December 31, 2020 and 2019 were $75 and $69, respectively.

NOTE 11 – STOCK-BASED COMPENSATION

Options - As of December 31, 2019, the Corporation has four share-based compensation plans which are described below. Options available for grant under the 1997 Nonemployee Director Discretionary Stock Option Plan, 2005 Nonemployee Director Stock Option Plan, and the 2005 Employee Stock Option Plan have been issued. Some of the options issued under the 1997 and 2005 plans are exercisable by the participants until the end of the contractual terms.

(Continued)

(000's omitted, except share and per share data)

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

The Corporation's 2005 Nonemployee Director Stock Option Plan, 2005 Nonemployee Director Discretionary Stock Option Plan, 2005 Employee Stock Option Plan, and 2014 Stock Incentive Plan (the "Plans"), permit the grant of stock options for up to 15,000 shares, 25,000 shares, 35,000, and 50,000 shares of common stock, respectively. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the entity's stock at the date of grant; those option awards generally vest immediately for nonemployees and over three years for employees and have 10-year contractual terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The compensation cost that has been charged against income for the Plans was approximately $36 and $35 for 2020 and 2019, respectively. As of December 31, 2020, there were 2,700 shares available for grant in the 2014 Stock Incentive Plan. In accordance with the respective Plan agreements, subsequent to November 2015, incentive stock options were no longer permitted to be granted from the 2005 Nonemployee Director Stock Option Plan or the 2005 Employee Stock Option Plan.

The Corporation uses a Black-Scholes formula to estimate the calculated value of its share-based payments. The volatility assumption used in the Black-Scholes formula is based on the historic volatility of the Corporation's stock price and dividend payments throughout the year. The Corporation calculated the historical volatility using the monthly closing total stock price for the one year immediately prior.

The weighted average assumptions used in the Black-Scholes model for 2020 grants are noted in the following table. The Corporation uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Volatility	10.00%
Dividend rate	3.10%
Expected term (in years)	7
Risk free rate	0.64%

A summary of option activity under the Plans for 2020 presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding – beginning of year	54,996	$ 51.65
Options granted	5,900	60.00
Options exercised	(7,158)	48.52
Options forfeited	-	-
Options expired	(175)	46.00
Options outstanding – end of year	53,563	$ 53.04
Exercisable at year end	41,130	$ 51.50

The grant-date fair value of options granted during 2020 was $2.15 per option.

(Continued)

(000's omitted, except share and per share data)

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

The aggregate intrinsic value of the outstanding options represents the total pretax intrinsic value (i.e., the difference between the Corporation's stock price of $60 and the exercise price, times the number of shares outstanding that would have been received by the option holder had all option holders exercised their options on December 31, 2020). The aggregate intrinsic value on outstanding options as of December 31, 2020, was approximately $695. The weighted average remaining contractual term (in years) for options outstanding as of December 31, 2020, was 6.43 years.

As of December 31, 2020, there was approximately $39 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.41 years.

Restricted Share Units - In 2020 and 2019, no restricted shares were awarded to any employees in accordance with the 2014 Stock Incentive Plan. During 2020 and 2019, 1,350 and 900 restricted shares awarded in prior years were vested. All restricted share units vest 3 years from the date of award. At year-end 2020, 600 shares awarded remain unvested. Expense recognized in 2020 and 2019 was $35 and $49, respectively, and unearned compensation cost at year-end 2020, which will be recognized over the next year was $11.

NOTE 12 – OFF-BALANCE-SHEET ACTIVITIES

Credit-related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
Commitments to grant loans	$ 10,072	$ 6,953
Unfunded commitments	27,179	25,452
Commercial and standby letters of credit	144	136

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

(Continued)

NOTE 12 – OFF-BALANCE-SHEET ACTIVITIES (Continued)

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements - To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies - Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

NOTE 13 – RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation.

Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus.

NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Company and Bank meet all capital adequacy requirements to which they are subject.

(Continued)

NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the Temporary changes implemented pursuant to section 4012 of the CARES Act.

As of December 31, 2020, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual and required minimum capital amounts and ratios, excluding the capital buffer, as of December 31, 2020 and 2019 are presented in the following table.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert-back to the risk-weighting framework without restriction. As of December 31, 2020, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

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NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Tier 1 capital (to average assets)	$ 26,451	10.6%	$ 20,056	8.0%	$ 20,056	8.0%
2019						
Total capital (to risk weighted assets)	$ 28,317	18.0%	$ 12,582	8.0%	$ 15,728	10.0%
Tier 1 capital (to risk weighted assets)	26,446	16.8	9,437	6.0	12,582	8.0
Common equity Tier 1 (to risk weighted assets)	26,446	16.8	7,077	4.5	10,223	6.5
Tier 1 capital (to average assets)	26,446	12.0	8,841	4.0	11,051	5.0

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2020 and 2019 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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(000's omitted, except share and per share data)

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2020:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:			
State and municipal	$ -	$ 34,215	$ -
Time deposits with other financial institutions	-	16,375	-
Mortgage-backed securities	-	10,669	-
Collateralized mortgage obligations	-	6,713	-
Total securities available for sale	$ -	$ 67,972	$ -

	Fair Value Measurements at December 31, 2019:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:			
State and municipal	$ -	$ 21,413	$ -
Time deposits with other financial institutions	-	26,468	-
Mortgage-backed securities	-	7,826	-
Collateralized mortgage obligations	-	5,587	-
Total securities available for sale	$ -	$ 61,294	$ -

The fair value of available-for-sale securities at December 31, 2020 and 2019 was determined primarily based on Level 2 inputs. The Corporation estimates the fair value of these investment inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans and other real estate-owned.

The change in fair value of impaired loans is recorded through the allowance for loan losses. The Corporation estimates the fair value of impaired loans based on Level 3 inputs which include the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

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(000's omitted, except share and per share data)

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

Other real estate-owned assets are reported in the following table at initial recognition of impairment and on an ongoing basis until recovery or charge-off. At the time of foreclosure or repossession, real estate-owned and repossessed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis. At that time, they are reported in the Corporation's fair value disclosures in the following nonrecurring tables:

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2020:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans			
Real estate – commercial	$ -	$ -	$ 1,855
Real estate – residential	-	-	17

Impaired loans measured had a fair value of $1,872 at year-end 2020 after a valuation allowance of $217. Impairment charges recognized during the year resulted in additional provisions for loan losses of approximately $200. Foreclosed assets measured at fair value had a net carrying amount of $0, after write-downs of $0 for the year. The real estate-commercial loan presented in the table above is valued using the sales comparison valuation technique with a discount of 10.2% being applied to available appraisal data to estimate fair value.

	Fair Value Measurements at December 31, 2019:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans			
Real estate – commercial	$ -	$ -	$ 11
Real estate – residential	-	-	21
Foreclosed assets			
Real estate – commercial	-	-	72

Impaired loans measured had a fair value of $32 at year-end 2019 after a valuation allowance of $11. Impairment charges recognized during the year resulted in additional provisions for loan losses of $0. Foreclosed assets measured at fair value had a net carrying amount of $72, after write-downs of $45 for the year. Quantitative information about these fair value estimates at year-end 2019 is not material to the financial statements.